

Message Text

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AMEMBASSY ROME

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USMISSION USNATO

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C O N F I D E N T I A L LUXEMBOURG 1002

E.O. 11652: GDS

TAGS: PINT, LU

SUBJ: LUXEMBOURG INTERNAL AFFAIRS: FALL 1976

SUMMARY: DURING THE COMING YEAR, PRIME MINISTER THORN WILL DEVOTE THE LION'S SHARE OF HIS TIME AND ENERGY TO INTERNAL LUXEMBOURG AFFAIRS. HE WILL, OF COURSE, MAINTAIN A LIVELY INTEREST AND PLAY AN ACTIVE ROLE IN THE EEC, BUT HIS LONG ABSENCES LAST YEAR AND URGENT POLITICAL AND ECONOMIC PROBLEMS AT HOME WILL COMPEL HIM TO CONCENTRATE ON DOMESTIC AFFAIRS, FOR EXAMPLE, POLITICAL FENCE-MENDING WITHIN HIS OWN PARTY AND WITH HIS SOCIALIST COALITION PARTNERS. THE LUXEM-
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BOURG ECONOMY HAS STILL NOT RECOVERED FROM LAST YEAR'S GENERAL

EUROPEAN SLUMP AND THE ALL IMPORTANT STEEL INDUSTRY REMAINS IN BAD SHAPE. THORN MAY FACE TOUGH PARLIAMENTARY FIGHTS ON THE DEFENSE BUDGET AND IN REGARD TO LUXEMBOURG'S INTELLIGENCE SERVICE. HIS PARTY AND HIS SOCIALIST PARTNERS ARE AT VARIANCE TO SOME EXTENT ON BOTH ISSUES. THORN REMAINS, HOWEVER, THE DOMINANT LEADER WITHIN THE GOVERNMENT, AND THERE IS LITTLE LIKELIHOOD THAT THE PRESENT COALITION WILL COME APART DURING THE FORESEEABLE FUTURE. UNDER THORN'S LEADERSHIP THE GOL SHOULD MAINTAIN DEFENSE AND SECURITY POLICIES IN THE BEST INTERESTS OF NATO. END SUMMARY.

1. POLITICAL: GASTON THORN HAS SAID PRIVATELY THAT AFTER A YEAR OF EXTRAORDINARY INTERNATIONAL ACTIVITIES HE PLANS TO CONCENTRATE THIS YEAR ON DOMESTIC AFFAIRS. THERE IS ROOM FOR DOUBT, HOWEVER, THAT HIS PERFORMANCE WILL MATCH HIS INTENTIONS. THE SCHEDULE OF INTERNATIONAL COMINGS AND GOINGS INVOLVING LUXEMBOURG DURING THE FALL MONTHS DOES NOT BODE WELL FOR A YEAR DEDICATED TO HOME FRONT FENCE-MENDING. THERE ARE THE INCESSANT EEC GATHERINGS AND THE REGULAR NATO MEETINGS. PRIME MINISTER NORDLI OF NORWAY HAS JUST COMPLETED A TWO-DAY VISIT HERE. THORN AND THE GRAND DUKE WILL VISIT ROMANIA OCTOBER 25-28. QUEEN ELIZABERTH AND PRINCE PHILLIP WILL VISIT LUXEMBOURG NOVEMBER 8-10. AUSTRIAN CHANCELLOR KREISKY WILL BE HERE NOVEMBER 19-21 AND THE QUEEN OF DENMARK NOVEMBER 22-24. MOREOVER, THORN HAS LOST NONE OF HIS PERSONAL INTEREST IN INTERNATIONAL ISSUES. AFTER SOME THOUGHT OF APPOINTING A JUNIOR MINISTER OF FOREIGN AFFAIRS, THORN DECIDED TO KEEP THE MFA PORTFOLIO IN HIS OWN HANDS. HIS HEALTH, WHICH SUFFERED LAST YEAR FROM FATIGUE AND JET LAG, HAS BEEN FULLY RESTORED DURING THE VACATION PERIOD. THORN LOOKS PHYSICALLY FIT, SAYS HE NEVER FELT BETTER AND APPEARS TO HAVE COMPLETELY REGAINED HIS OLD BOUNCE AND ENERGY.

2. NONETHELESS, THORN IS PROBABLY SINCERE IN HIS RESOLUTION TO DEVOTE MORE TIME TO LUXEMBOURG AFFAIRS. HIS ABSENCES DURING THE PAST YEAR DID NOT SIT WELL
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WITH CERTAIN KEY MEMBERS OF HIS OWN PARTY, NOT TO SPEAK OF HIS SOCIALIST COALITION PARTNERS. WHILE HIS PERSONAL POPULARITY REMAINS HIGH. HIS SMALL LIBERAL (DEMOCRATIC) PARTY HAS PROBLEMS. DEMOCRATIC LEADERS COMPLAIN OF DIFFICULTY IN ATTRACTING YOUNG PEOPLE AND THE PARTY IS SHORT OF MINISTERIAL TALENT. ECONOMIC MINISTER MART, WHO WITH THORN AND LUXEMBOURG MAYOR COLETTE FLESCH COMPRISE THE TRIUMVIRATE OF THE DEMO-

CRATIC PARTY, HAS WANTED TO LEAVE THE GOVERNMENT FOR SOME TIME AND HAS STAYED ON ONLY BECAUSE OF THORN'S DIFFICULTIES IN REPLACING HIM. MART HAS AGREED TO REMAIN IN THE GOVERNMENT UNTIL THE SPRING OF 1977 ON THE CONDITION THAT THORN APPLY HIMSELF MORE RIGOROUSLY TO PARTY MATTERS.

3. THERE HAS ALSO BEEN FURTHER EROSION IN THE DEMOCRATIC/SOCIALIST PARTNERSHIP BUT THE COALITION GOVERNMENT IS LIKELY TO REMAIN INTACT FOR THE FORESEEABLE FUTURE, AT LEAST FOR THE COMING NINE MONTHS. BOTH PARTIES BELIEVE THE GOVERNMENT WEATHERED LAST YEAR'S ECONOMIC CRISIS AS WELL AS COULD HAVE BEEN EXPECTED. THE ANTI-RECESSION MEASURES ADOPTED, WHILE NOT ALWAYS POPULAR WITH THE LEFT WING OF THE SOCIALIST PARTY, WON GENERAL PUBLIC APPROVAL. BOTH PARTIES WERE SOBERED BY THE GERMAN ELECTION OUTCOME AND FEAR, PROBABLY RIGHTLY, THAT IF ELECTIONS WERE HELD TODAY THE CONSERVATIVE OPPOSITION WOULD GAIN GROUND IN LUXEMBOURG AS IN GERMANY. THEREFORE, IN SPITE OF SOME PERSONAL ANIMOSITIES AT THE MINISTERIAL LEVEL AND INCREASING ALIENATION OF THE LEFT WING AND YOUTH MOVEMENT OF THE SOCIALIST PARTY, BOTH DEMOCRATIC AND SOCIALIST LEADERS BELIEVE THEY HAVE MORE TO LOSE THAN GAIN BY AN OPEN SPLIT AT THIS TIME. THUS, THE INTERNAL POLITICAL OUTLOOK FOR THE COMING NINE MONTHS IS FOR MINOR SQUABBLES AND JOCKEYING FOR POSITION AMID GENERAL POLITICAL STABILITY AND COHESIVE GOVERNMENT POLICY ON MAJOR ISSUES. THORN WILL REMAIN THE CENTRAL, DOMINATING FIGURE IN THE GOVERNMENT.

4. ECONOMY: THE MOST SOMBER INTERNAL NOTE IS THE LUXEMBOURG ECONOMY AND PARTICULARLY THE NATION'S CONFIDENTIAL

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VITAL STEEL INDUSTRY. LUXEMBOURG STEEL AND OTHER MANUFACTURES HAVE NO HOME MARKET AS SUCH BUT DEPEND 95PC ON EXPORT SALES, PREDOMINANTLY TO GERMANY, BELGIUM, FRANCE AND THE REST OF THE EC. IN STEEL CIRCLES, THE MILD OPTIMISM OF LAST SPRING HAS EVAPORATED. STEEL INDUSTRY SPOKESMEN NOW FORESEE A LONG WINTER AND CAN ONLY HOPE FOR A SPRING UP-TURN IN SALES.

5. THE SLOWNESS OF THE ECONOMIC RECOVERY IN NEIGHBORING COUNTRIES HAS NOW STRETCHED THE LOCAL RECESSION TO ALMOST TWO YEARS. NON-STEEL MANUFACTURERS, SUCH AS THE AMERICAN MULTINATIONALS HERE (GOODYEAR, DUPONT, MONSANTO) HAVE EMERGED FROM LAST YEAR'S THROUGH AND IN VARYING DEGREES ARE GETTING BACK TO NORMAL PRODUCTION LEVELS. THE INTERNATIONAL BANKING SECTOR

HAS PUT TOGETHER TWO SUCCESSFUL LOAN YEARS IN 1975/1976 AND HAS PROVIDED MUCH NEEDED TAX REVENUES. NONE-THELESS, STEEL IS THE KEY BOTH TO GNP (3/4 OF 1975'S 7.2 PERCENT FALL IN GNP WAS DIRECTLY ATTRIBUTABLE TO THE STEEL INDUSTRY SLUMP) AND TO EMPLOYMENT. PUBLIC WORKS PROJECTS SOAKED UP POTENTIAL UNEMPLOYMENT LAST WINTER BUT THIS MIGHT NOT BE PALATABLE TO THE GENERAL PUBLIC A SECOND TIME AROUND. ONLY A MODEST PROGRAM HAS BEEN ANNOUNCED SO FAR. IT IS LIKELY THAT INCREASED GOL SUPPORT FOR THE STEEL INDUSTRY WILL PUT MONEY, AND THUS LABOR, INTO IMPROVING PLANT AND CAPACITY RATHER THAN FINANCING ROAD AND FOREST WORK FOR STEELWORKERS AS WAS DONE LAST YEAR. THE COST OF ANY SUCH PROGRAM WILL DRAIN FURTHER THE GOL BUDGET.

6. INFLATION HAS BEEN A PROBLEM FOR TWO YEARS AND ONLY SLIGHT IMPROVEMENT IS PROJECTED. (THERE IS OPTIMISM THAT THE RATE CAN BE BROUGHT BACK TO A SINGLE DIGIT FIGURE.) MINISTER MART HAS SPOKEN OUT FOR A REVISION OF THE WAGE INDEX SYSTEM VIA A BROADENING OF THE BASE TO SLOW SPURS TO INFLATION. INDEXATION ITSELF, HOWEVER, IS SACRED TO THE SOCIALIST COALITION PARTNERS AND ANY REAL REFORM WILL BE DIFFICULT. THE MAJOR ECONOMIC INVESTMENT UP FOR PARLIAMENTARY APPROVAL (IN NOVEMBER) IS AN ATOMIC POWER PLANT ON THE MOSELLE RIVER. MINISTER MART HAS FORCEFULLY ADVOCATED THE

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PROJECT AND A CLOSE VOTE FOR A GO-AHEAD IS EXPECTED.

7. SECURITY: PRIME MINISTER THORN HAS STATED THAT LUXEMBOURG WILL TRY TO MEET ITS PLEDGED DEFENSE SPENDING INCREASE FOR 1977 OF 4.5 PERCENT, IN SPITE OF DIFFICULTIES CAUSED BY LUXEMBOURG'S ECONOMIC SLOWDOWN.

8. ALTHOUGH THE LUXEMBOURG INTELLIGENCE SERVICE (SRL) HAS BEEN UNDER ATTACK FROM LEFT WING OPPONENTS FOR SEVERAL YEARS, THORN CONTINUES TO PLEDGE HIS SUPPORT TO MAINTAINING AND STRENGTHENING SRL TO ENABLE IT TO CARRY OUT ITS NATO SECURITY RESPONSIBILITIES. A LARGE SOVIET PRESENCE IN LUXEMBOURG, OVERTLY ACTIVE IN DIPLOMATIC, BANKING AND TRANSPORTATION FIELDS, NECESSARILY OCCUPIES MOST OF SRL'S CAPABILITY WHICH IS SOMEWHAT LIMITED BY ITS SMALL SIZE.

9. BOTH DEFENSE SPENDING AND THE STATUS OF THE SRL COULD CAUSE POLITICAL SQUALLS DURING THE COMING MONTHS, BUT UNDER THORN'S LEADERSHIP IT IS NEARLY CERTAIN THAT THE GOL WILL BE GUIDED IN BOTH CASES BY THE BEST INTERESTS OF NATO. GINN

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